



New Issue: MOODY'S ASSIGNS Aa2 RATING AND STABLE OUTLOOK TO THE IDAHO BOND BANK AUTHORITY REVENUE BONDS, SERIES 2010A

Global Credit Research - 22 Apr 2010

APPROXIMATELY \$198.4 MILLION OF DEBT AFFECTED, INCLUDING CURRENT OFFERING

State
ID

Moody's Rating

| ISSUE | RATING |
|-------|--------|
|-------|--------|

| | |
|-------------------------------|-----|
| Revenue Bonds, Series 2010A-1 | Aa2 |
|-------------------------------|-----|

Sale Amount \$8,000,000

Expected Sale Date 04/28/10

Rating Description Revenue

| | |
|-------------------------------|-----|
| Revenue Bonds, Series 2010A-2 | Aa2 |
|-------------------------------|-----|

Sale Amount \$8,000,000

Expected Sale Date 04/28/10

Rating Description Revenue

Opinion

NEW YORK, Apr 22, 2010 -- Moody's Investors Service has assigned a Aa2 rating and a stable outlook to the Idaho Bond Bank Authority Revenue Bonds, Series 2010A-1 and 2010A-2 expected to be issued in the aggregate amount of approximately \$16.0 million. At this time, Moody's affirms the Aa2 rating on the Idaho Bond Bank Authority's outstanding bonds in the amount of \$182.3 million. All of the bond bank's debt is currently fixed rate obligations. Proceeds from the current offering will be used to provide loans to one existing participant. Proceeds from the current sale are secured by the net revenues of the City of Twin Falls Water Enterprise system. Further security is provided by the state intercept whereby intergovernmental revenues will be transferred directly to the trustee to pay debt service if payment has not been received within ten days of the debt service payment date. The 2010A bonds are also secured by a pledge of the state's sales tax revenues. The Aa2 rating primarily reflects the broad pledge of the State of Idaho's (Issuer Global Scale Rating Aa1, with a stable outlook) sales tax revenues, the state intercept mechanism, satisfactory payment timing, and the average credit quality of the net revenues securing the 2010A bonds.

BOND BANK AUTHORIZED BY CONSTITUTION AND STATUTE AND APPROVED BY VOTERS

The Idaho Bond Bank program was authorized in 2001 as a result of a series of legislative and voter-approved actions. The Legislature approved an amendment to the Idaho State Constitution (Article VIII, Section 2A); the voters of Idaho approved the creation of the Idaho Bond Bank and the state sales tax pledge in 2000. The program was authorized in 2001 by the Idaho Bond Bank Authority Act (Title 67, Chapter 87 of the Idaho Statutes), which established the bond bank to provide Idaho communities with an attractive mechanism for financing local infrastructure. Under the bond bank program, each series of bonds is secured by a pledge of the underlying borrowers. The security set forth in each underlying borrower's loan agreement may include, but is not limited to a general obligation, pledge of net enterprise revenues, property tax assessments, or a general fund lease. Further, the bond bank program includes a credit review process and minimum credit criteria for potential borrowers. The process includes a qualitative component ensuring eligibility in the program, the legal authority to borrow, and a review of the borrower's capital planning program. The quantitative component evaluates criteria including the historical strength of the borrower's specific pledge, the impact of the borrowing on operating funds, and minimum debt service coverage thresholds, as well as economic, population and tax base trends.

MECHANISMAND TIMING OF STATE SALES TAX PAYMENTS IS SATISFACTORY; ALTHOUGH DECLINING, PLEDGED STATE SALES TAX REVENUES PROVIDE HEALTHY COVERAGE OF IDAHO BOND BANK AUTHORITY BONDS

Interest payments are due March 15 with principal and interest due on September 15. Bond bank loan participants are required to pay the bond bank trustee 15 days prior to bond payment. If the participant's payment has not been received within 10 days of the payment date, the trustee is required to notify the state treasurer to implement intercept procedures, if applicable. Finally, if funds are insufficient within five days of the payment date, the state treasurer will transfer from the state sales tax account an amount sufficient to make the scheduled debt service payment.

Due to a constitutional prohibition on the lending of the state's credit to municipalities, Idaho has opted to provide for a pledge of state sales tax revenues to guarantee full and timely payment of loan participant debt service when due. The State of Idaho's Tax Anticipation Notes (TANs) have the most senior lien on the sales tax revenues. The TANs, however, are secured by tax revenues, including individual income, sales tax collections, and corporate income, to be received in the fourth quarter, as well as the state's full faith and credit general obligation pledge. The State of Idaho's Tax Anticipation Notes Series 2009 in the amount of \$500 million received a Moody's MIG-1 rating in June 2009 and projected fourth-quarter revenues provide 1.7 times coverage of note principal. Idaho School Bond Guaranty (ISBG) bonds issued since July 1, 2001 outstanding in the approximate amount of \$618.6 million have a parity lien on State Sales Tax Revenues. To date the ISBG program (Aaa) has never made any claims against the State Sales Tax revenues given the voter-approved unlimited ad valorem property tax pledge securing each ISBG participant, presence of Public School Permanent Endowment Fund and the state intercept mechanism. Typically, the amount of interceptable revenues allocated to a school district far exceed the amount of annual debt service required to be paid in any given year; as of December 2008, FY08 interceptable revenues to school districts participating in the ISBG program provide an average of roughly 14 times coverage of MADS.

Similar to other western states, depressed consumer activity has resulted in declining sales tax revenues in fiscal 2009 by 20.2% from the prior year. For the current year, officials estimate state sales revenues will increase slightly by 4.7%, but above an originally projected decline of 6%. Officials have projected this trend to continue and expect a 3.9% increase in 2011. Despite the drops coverage of maximum annual debt service (MADS) in 2021 of all outstanding IBBA debt is still strong at 63.9 times. FY10 state sales tax revenues are estimated to provide MADS (2010) coverage of roughly 13 times for both the IBBA program and the Idaho School Bond Guaranty Program (ISBG). As of January 2010, the state's unemployment rate increased to 10.6% (from 7.8% in January 2009), which now approximates the nation for the first time since 2002. To date, the program does not have a borrowing cap. Moody's will continue to monitor the borrowing trends of both the IBBA and the school bond guaranty program; management indicates preliminary planning on establishing a borrowing cap.

SATISFACTORY CREDIT QUALITY OF SOLE PARTICIPANT

The current sale includes a single loan of approximately \$16.0 million to the City of Twin Falls Water Enterprise System (no underlying rating). The loan is secured by the net revenues of water enterprise system. The current sale and the previously issued Idaho Bond Bank Authority Revenue Bonds, 2009B outstanding in the amount \$10.3 million have a parity pledge on the system's net revenues. Combined both loans comprise a moderate 13.2% of total outstanding loans since the programs inception making it the largest borrower in the program. Moody's notes the prior loan and the current loan are also secured through state intercept payments established under Idaho Code. Fiscal 2009 interceptable state payments to the city totaled roughly \$6 million, or about 2.5 times maximum annual debt service. Importantly, the 2010A bonds are additionally secured by a transfer from the state sales tax account in an amount sufficient to make the scheduled debt service payment.

Each participant in the program is required to execute a loan agreement with the bond bank to provide funds to make payments on the new loan. The bond bank will use these payments to repay the participant's portion of the Series 2010A bonds. There are no cross-default provisions in the loan agreements; therefore each participant will not be liable for the failure of any other municipality to make payments with respect to previously issued bonds.

Since the 2000 census, the City's population increased a moderate 17% to an estimated 40,380 (2008). The City is located about 130 miles southeast of the state capitol, Boise, and is the Twin Falls county seat. According to the 2000 census, per capita and median family income levels were below state averages at 92% and 89%, respectively. The water system currently has an estimated 14,300 accounts and an ample water supply comprised of numerous ground wells. In order to become in full compliance with federal arsenic standards by January 2011, proceeds from the current sale and the prior 2009B loan will be used to purchase water rights which will allow the enterprise to blend current supply with new water sources which have arsenic levels closer to the upcoming standards. To accommodate the recent and significant borrowing substantial user rate increases will be necessary to provide for sufficient net revenues to cover annual debt service payments.

In fiscal 2009, net working capital was a strong 99.0% of gross revenues (\$5.8 million) and only slightly less than prior years. Including a prior state loan and the two borrowings from the Idaho Bond Bank, FY09 net revenues provide a thin 0.55 times coverage of maximum annual debt service (MADS) in 2012, reflecting the importance of substantial near term rate increases; positively council has adopted rate increases of 16% for fiscal 2011 and an additional 15% in fiscal 2012. Financial projections indicate coverage of MADS of 1.4 times by 2012, including the Build America Bond

subsidy. The current sale pays out at an average rate of 45% in ten years and the pro-forma debt ratio increases to 55%. Legal provisions are somewhat weak and include a rate covenant requiring 1.25 times coverage of annual debt service, an additional bonds test of 1.25 times MADS, and no debt service reserve requirement unless the rate covenant is not satisfied. In this case the requirement must be met within four years and will be equal to the standard lesser of test. In addition, the rate covenant and additional bonds test have been amended to include the 35% Build America Bond interest subsidy as another source of gross revenue.

Moody's has reviewed and assessed the credit quality of the Twin Falls water enterprise. The rating equivalent of the pledged securities is deemed to be of investment grade quality. Factors include the average wealth levels of the service area, solid cash levels and pressured net revenues given substantial borrowing in the near term.

Outlook

The Idaho Bond Bank Authority's outlook is stable based on continued solid coverage of outstanding debt service and limited future borrowing.

KEY STATISTICS:

City of Twin Falls Water Enterprise

Loan amount: \$16.0 million

Purpose: Purchase water rights

FY08 coverage of maximum annual debt service: 0.55 times

The last rating action was on October 19, 2009 when a rating of Aa2 with stable outlook was assigned to the Idaho Bond Bank Authority.

The rating assigned to Idaho Bond Bank Authority Revenue Bonds, Series 2010A-1 and Revenue Bonds Series 2010A-2 was issued on Moody's municipal rating scale. Moody's has announced its plans to recalibrate all U.S. municipal ratings to its global scale and therefore, upon implementation of the methodology published in conjunction with this initiative, the rating will be recalibrated to a global scale rating comparable to other credits with a similar risk profile. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration please visit www.moodys.com/gsr.

The principal methodology used in assigning the rating was State Aid Intercept Programs (February 2008) and Financings and Local Government General Obligation and Related Ratings (December 2008), and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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